

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Ruth Y. Goldway, Chairman;
Robert G. Taub, Vice Chairman;
Mark Acton;
Tony Hammond; and
Nanci E. Langley

Competitive Product Prices
Parcel Return Service
Parcel Return Service Contract 4

Docket No. MC2013-46

Competitive Product Prices
Parcel Return Service Contract 4 (MC2013-46)
Negotiated Service Agreement

Docket No. CP2013-60

ORDER ADDING PARCEL RETURN SERVICE CONTRACT 4
TO THE COMPETITIVE PRODUCT LIST

(Issued May 8, 2013)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Parcel Return Service Contract 4 to the competitive product list.¹ For the reasons discussed below, the Commission approves the Request.

¹ Request of the United States Postal Service to Add Parcel Return Service Contract 4 to Competitive Product List and Notice of Filing (Under Seal) of Unredacted Governors' Decision, Contract, and Supporting Data, April 29, 2013 (Request).

II. BACKGROUND

On April 29, 2013, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. § 3020.30 *et seq.*, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that Parcel Return Service Contract 4 is a competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). *Id.* at 1. The Postal Service further asserts that the prices and classification underlying the contract are supported by Governors’ Decision No. 11-6.² Among the supporting documents, the Postal Service included a copy of Governors’ Decision No. 11-6, a contract related to the proposed new product (Agreement), requested changes to the competitive product list, a statement supporting the Request, and a certification of compliance with 39 U.S.C. § 3633(a). In addition, the Postal Service submitted an application for non-public treatment of materials to maintain redacted portions of Governors’ Decision No. 11-6, the contract, customer-identifying information, and related financial information filed under seal. Request, Attachment F.³

On April 30, 2013, the Commission issued an order establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.⁴

² Decision of the Governors of the United States Postal Service on the Establishment of Prices and Classifications for Domestic Competitive Agreements, Outbound International Competitive Agreements, Inbound International Competitive Agreements, and Other Non-Published Competitive Rates, March 22, 2011 (Governors’ Decision No. 11-6).

³ In its application for non-public treatment of materials, the Postal Service asks the Commission to protect customer-identifying information from public disclosure indefinitely. *Id.* at 7. The Commission has consistently denied similar requests for indefinite protection. See, e.g., Order No. 563, Docket Nos. MC2011-1 and CP2011-2, Order Approving Express Mail Contract 9 Negotiated Service Agreement, October 20, 2010, at 6-7.

⁴ Order No. 1706, Notice and Order Concerning Parcel Return Service Contract 4 Negotiated Service Agreement, April 30, 2013.

III. COMMENTS

The Public Representative filed comments on May 7, 2013.⁵ No other interested person submitted comments.

The Public Representative states that he has reviewed the Agreement, the Statement of Supporting Justification, and the financial data and model filed under seal. *Id.* at 2. Based on this review, the Public Representative concludes that the Agreement should be added to the competitive product list and that it should generate sufficient revenue to cover its costs in the first year. *Id.* at 2-3. The Public Representative states that the Postal Service's assertions addressing the considerations of 39 U.S.C. § 3642 appear reasonable. *Id.* at 3. Based on these assertions, the Public Representative concludes that the Agreement should be added to the competitive product list. *Id.*

In addition, the Public Representative expresses some concern regarding the Agreement's ability to cover costs in subsequent years, given the lack of data available for years 2 and 3 of the Agreement. *Id.* However, he states that his concern is largely mitigated by the annual rate adjustment provision included in the Agreement and the Commission's ability to review the contract as part of its Annual Compliance Determination. *Id.* at 3-4.

IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the Agreement, the supporting data filed under seal, and the Public Representative's comments.

Product list requirements. The Commission's statutory responsibilities when evaluating the Request include assigning Parcel Return Service Contract 4 to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.34. In addition, the Commission must consider the availability and nature of

⁵ Public Representative Comments on Postal Service Request to Add Parcel Return Service Contract 4 to Competitive Product List, May 7, 2013 (PR Comments).

private sector enterprises engaged in delivering the product, the views of those who use the product, and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. § 3020.32(f), (g), and (h).

The Postal Service asserts that it provides Parcel Return Service in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can, therefore, neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service states that the contract partner supports the Request, that the market for expedited delivery services is highly competitive and requires a substantial infrastructure, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3.

Having considered the relevant statutory and regulatory requirements and the Postal Service's supporting justification, the Commission finds that Parcel Return Service Contract 4 is appropriately classified as competitive and is added to the competitive product list.

Cost considerations. Because Parcel Return Service Contract 4 is a competitive product, the Postal Service must also show that the Agreement covers its attributable costs, contributes to the Postal Service's institutional costs, and does not cause any market dominant products to subsidize competitive products. 39 U.S.C. § 3633(a); 39 C.F.R. § 3015.5.

As part of its Request, the Postal Service submitted a certified statement that the Agreement complies with the requirements of 39 U.S.C. § 3633(a). Request, Attachment E. In addition, the Postal Service filed supporting revenue and cost data showing that the Agreement is expected to cover its costs in the first year.

The Public Representative raises concerns about the lack of data for subsequent years of the Agreement. PR Comments at 3. As noted by the Public Representative, the Agreement includes an annual rate adjustment provision. *Id.* at 3-4. This provision should allow the Agreement's revenues to cover costs in years 2 and 3. Thus, the

Commission finds that Parcel Return Service Contract 4 complies with the provisions applicable to rates for competitive products. As part of its Annual Compliance Determination proceedings, the Commission will review the Agreement's financial performance for consistency with section 3633(a).

Other considerations. By its terms, the Agreement becomes effective 1 business day after the date that the Commission issues all necessary regulatory approvals. Request, Attachment B at 2. The Agreement is scheduled to expire 3 years after the effective date, unless, among other things, either party terminates the contract with 30 days' written notice to the other party. *Id.*

If the Agreement is terminated prior to the scheduled expiration date, the Postal Service shall promptly notify the Commission.

Within 30 days after the Agreement terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by weight and zone.

In conclusion, the Commission approves Parcel Return Service Contract 4 as a new product. The revision to the competitive product list appears below the signature of this Order and is effective immediately.

V. ORDERING PARAGRAPHS

It is ordered:

1. Parcel Return Service Contract 4 (MC2013-46 and CP2013-60) is added to the competitive product list as a new product under Negotiated Service Agreements, Domestic. The revision to the competitive product list appears below the signature of this Order and is effective immediately.
2. The Postal Service shall notify the Commission if the Agreement terminates prior to the scheduled expiration date as discussed in this Order.

3. Within 30 days after the Agreement terminates, the Postal Service shall file the annual (contract year) costs, volumes, and revenues disaggregated by weight and zone.
4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Shoshana M. Grove
Secretary

CHANGE IN MAIL CLASSIFICATION SCHEDULE
CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix A to 39 C.F.R. part 3020, subpart A—Mail Classification Schedule. These changes reflect the Commission's order in Docket Nos. MC2013-46 and CP2013-60. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Part B—Competitive Products

2000 Competitive Product List

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Negotiated Service Agreements

Domestic

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Parcel Return Service Contract 4

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